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Working from Home During COVID-19?

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Don't miss out on 2020 personal tax deductions.

Many businesses started the pandemic anticipating employees would have to work from home as a temporary arrangement, however, many are now considering more permanent shifts to employees working from home.

Now is a good time to consider whether you can claim expenses in relation to your workspace at home and what expenses may be eligible.

Who can claim home office expenses?

For 2020 only, employees who worked from home more than 50 per cent of the time over a period of at least four consecutive weeks due to COVID-19 will be able to claim home office expenses.

To avoid the detailed tracking of expenses and the administration caused by employers to certify their employee(s) requirement to work from home, the CRA has introduced a simplified method to claiming home office expenses. The simplified method is a new temporary flat rate of \$2 per day for each day worked at home, to a maximum of \$400 for the 2020 taxation year. Under this flat rate method, detailed tracking of expenses and an employer signed T2200 or T2200S (discussed in **Other Requirements** section below) is generally not required. In calculating the workdays, individuals must use the days that they worked full-time or part-time from home, but not days of absence (i.e., vacation days, sick leave, or other days off).



In order to qualify to claim home office expenses under the regular "detailed" method (rather than the temporary flat rate method noted above), you must (1) complete more than 50 per cent of your employment duties from your workspace at home (for a period of at least four consecutive weeks for the 2020 taxation year) or (2) the home office must be used on a regular and continuous basis to meet with clients. Whether using the temporary method or the "detailed method", if your employer has reimbursed you for **all** of your home office expenses, you are not eligible to claim home office expenses.

Your employer must agree that you were in fact required to fulfill your employment functions through your home office (this does not need to be part of your employment contract and may be a verbal agreement). Given that many businesses are requiring employees to work remotely, this should not be a difficult position to take for the 2020 taxation year. However, on a go-forward basis you may want to review your employment contract or your organization's employee manual/work-from-home policy to ensure it is applicable to you.

With COVID-19 and social distancing requirements, face-to-face meetings with clients/customers/patients is much less common. CRA has not yet clarified whether virtual meetings/appointments qualify as "regularly and continual meetings" for the purposes of being eligible to claim home office expenses. Instead, it is more likely you will be able to meet the requirement of spending more than 50 per cent of your working time in your home office. Based on the current tax rules, however, it appears you can only deduct home office expenses if you were required to work from home for more than six months of the calendar year, irrespective of the fact you worked from home more than 50 per cent of the time during the period of, say, five months.

What expenses can be claimed?

The expenses you can claim for home office use depends on the type of income you earn:

Type of Income Earned

Expense	Employment	Commission	Self-employment
Heat	Yes	Yes	Yes
Electricity	Yes	Yes	Yes
Insurance	No	Yes	Yes
Repairs and maintenance	Yes	Yes	Yes
Mortgage interest	No	No	Yes
Property tax	No	Yes	Yes
Rent (including maintenance costs)	Yes	Yes	Yes
Other expenses (water, security, etc.)	Yes	Yes	Yes
Capital cost allowance	No	No	Yes
Home internet access fees	Yes	Yes	Yes
Lease of cell phone, computer, fax machine, tablet, etc.	No	Yes	Yes

The above noted expenses are fairly self-explanatory with the exception of capital cost allowance, home internet expenses, and repairs and maintenance.

When you purchase something solely for use in your home office that will be used over a period of time – like a desk, chair or computer – you can't expense the full cost amount in the year of purchase but you can expense a percentage of the cost each year, if you are self-employed.

While employees and commissioned salespeople are not eligible to claim capital cost allowance, there is a new CRA administrative position that has been released in light of COVID-19. An employer can reimburse the cost of home office equipment (personal computer equipment, office furniture or other home office equipment) to a maximum of \$500 if it enables the employee to "immediately and properly perform the employee's work" and the amount will not be considered a taxable benefit to the employee as long as the employee provides a receipt for the purchase.



While home internet access fees may be claimed, the CRA has indicated home internet connection fees or the portion of fees relating to the lease of a modem/router are not eligible home office expenditures.

Repairs and maintenance must relate directly or indirectly to the home office space. For example, repainting a guest bedroom has no impact on your home office space, whereas minor repairs to your furnace could indirectly relate to your home office space.

Calculating the home office portion of expenses

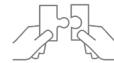
After you've calculated the total expenses you are eligible to claim, you need to determine what percentage of those costs relate to your home office. Generally, you must consider both the percentage of time the space is used for work and the proportion of the home that is used for the workspace.

The determination must be made on a "reasonable basis". The CRA has indicated a reasonable basis is to take the square footage of the home office and divide it by the total square footage of the interior of your home. For those employees using a common (shared) area (rather than a designated room) such as their kitchen table or dinning room table, the CRA has suggested the amount of eligible expenses to be claimed in respect of the common area is further refined based on your employment use of the space, determined by the number of hours the space is used for work. However, other allocation methods may be considered reasonable depending on the circumstances.



With COVID-19, it's likely that you were required to work from home but not for the entire year. As such, once you've determine the percentage of your home used as part of your home office, you should also prorate your expenses based on the number of months out of twelve that you were required to work from home.

As the math can get complicated, CPA Canada and the Canadian Tax Foundation asked CRA to consider a simplified approach that would allow employees to claim home office expenses based on a fixed rate per hours worked (similar to an approach implemented in Australia) or by determining the actual costs as described above.



Consider other deductible employment expenses

While not considered to be expenses eligible to be deducted as part of your home office, you should also consider expenses such as supplies (i.e., pens, pencils, ink cartridges, stamps, stationery, file folders, etc.) that are an integral and essential part of carrying out your employment duties. In addition, long-distance telephone calls and cellular minutes that reasonably related to carrying on your employment duties may be deductible as employment expenses as well.

While a basic cell phone service plan is not considered to be part of an employee's physical work space in your home, employees are eligible to claim a basic cell phone service plan provided that the cost of the plan is reasonable, the minutes/data are used to employment purposes, and the cost of the plan has been divided between employment use and personal use on a reasonable basis.

As mentioned above, there must be an understanding between you and your employer that you were, in fact, required to incur the expenses to fulfill your employment duties.

Employer allowances and reimbursements



- With the exception of the new CRA administrative position that allows for a \$500 reimbursement for computer equipment purchased during COVID-19 (as previously mentioned), all other allowances received for your home office expenses would be considered a taxable employment benefit and should be reported on your T4 or T4A and included in your income.

Direct reimbursements by your employer for expenses that are reasonable and employment-related do not need to be included in your income. However, where there is a potential for a personal use of the expense, the portion related to the personal use would be included in your income as a taxable benefit.

Other requirements

While the “detailed method” potential provides employees with a larger amount of employment expenses to claim, the employees will also have to meet additional reporting requirements including keeping all receipts and invoices to support your home office expenses and supplies as well as obtaining a signed Form T2200 *Declaration of Conditions of Employment* from their employers to support the home office expenses and supplies claimed by an employee or commissioned salesperson.



To assist employers with the administrative burden of completing Forms T2200, the government has released a new T2200S *Declaration of Conditions of Employment for Working at Home Due to COVID-19* for employees who were required to work from home specifically due to COVID-19. For employees who usually work from home, the regular T2200 is still required. If an employer provides a T2200S, the employee can still choose to use the flat rate method or detailed method to calculate their home office expense deduction.



GST/HST rebate

If you are an employee who is eligible to deduct expenses in relation to your home office, you may be able to claim a rebate of the Goods and Services Tax (“GST”) and the Harmonized Sales Tax (“HST”) paid on these expenses based on the portion of the expenses deductible for the year.

To do so, a Form GST370 *Employee and Partner GST/HST Rebate Application* will need to be prepared with your personal income tax return to claim the GST/HST rebate. The GST/HST rebated received must be included in your income for the year in which it is received.



To be eligible for to claim the GST/HST rebate, the employer must be a GST/HST registrant and cannot be a listed financial institution.

What is the bottom line?

We have never been through a pandemic of this magnitude and the government continues to adapt and modify administrative policies to address the changing economic environment. To ensure you can maximize possible deductions when completing your 2020 personal income tax return, keep all of your receipts and invoices for purchases, invoices for home expenses like heat, hydro, water, internet, etc. and stay tuned to see what CRA releases in the coming months to address the fact that so many of us have been working from home during COVID-19.

How Can Crowe Soberman Support You?

In these uncertain times, it is essential to remain agile and proactive as the COVID-19 situation unfolds. Having timely access to financial experts, insights and news as quickly as possible is critical—and that's where we can help.

We have established a dedicated COVID-19 Resource Hub, highlighting areas of business operations that will likely be impacted by coronavirus. Whether you need to discuss your current financial situation and learn what options are available to you, or you want to be guided through the appropriate cash flow management strategies for your business, our team of experts are ready to help you at every step of the way. Please do not hesitate to reach out to your Crowe Soberman professionals for support during these challenging times.

We are in this together.

This article has been prepared for the general information of our clients. Specific professional advice should be obtained prior to the implementation of any suggestion contained in this article. Please note that this publication should not be considered a substitute for personalized tax advice related to your particular situation.

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